

June 11, 2001

ILLINOIS COMMERCE COMMISSION

STAFF REPORT

**Subject: CRYSTAL CLEAR WATER COMPANY**

**CAPSULE SUMMARY**

The purpose of this report is to advise the Manager of the Water Department (WD) of Staff's findings during a follow-up inspection on the Order, entered June 16, 1999, in Docket No. 97-0605, concerning Crystal Clear Water Company (CCWC or Company).

After inspecting CCWC's water facilities, discussing compliance with the Order with Company personnel, and considering alternatives of ensuring that the Company will comply with the Order, Staff recommends that the Commission reopen the docket proceeding. It can then determine why CCWC has not complied with the findings in the Order and investigate CCWC's filing for bankruptcy. Further, Staff recommends that CCWC be placed in receivership under Section 4-501 of the Public Utilities Act (Act).

**PROCEDURAL HISTORY**

On January 10, 1997, Mr. Thomas P. Mathews, owner and operator of CCWC filed for an increase in revenues under the Commission's simplified rate case procedures. In response to CCWC's notification to the customers about the rate increase, the Consumer Services Division (CSD) received replies from the customers opposing the rate increase. As a result of those replies filed by the customers, a public meeting was held on March 25, 1997.

The purpose of the public meeting was to allow customers the opportunity to voice any concerns about issues regarding the Company. Mr. Mathews and Mr. Jeff Klaus (Vice President) represented CCWC at the public meeting. Representatives from the Illinois Environmental Protection Agency (IEPA) were present and also answered questions. Approximately 20 of the 300 customers served by CCWC attended. The customers voiced anger and

frustration about the quality of water, Company management, service, and the lack of concern and action by the Commission and IEPA.

As a result of the public meeting, the Commission initiated a Citation proceeding which terminated the simplified rate case procedure and commenced an investigation into its rates and non-compliance to Commission's rules and regulations.

Based on the evidence from the proceeding in Docket 97-0605, the Commission entered an order requiring CCWC to take corrective actions in their operations and bookkeeping to enable them to improve service to their customers. The following summary set forth the actions to be taken and the deadline to be completed. (Note that all deadlines extend from the date of the Order.)

	Requirement	Deadline	Completion
1.	Institution of meter reading program;	1 year	As of inspection date, CCWC has not read meters for 3 billing cycles
2.	Institution of a meter replacement or installation program;	1 year	Minor
3.	Quarterly reports indicating location of installed meters and remotes and documenting quantity of customer refunds;	Quarterly	Not Completed
4.	Establish a meter testing program on meters that are 10 yrs. or older;	120 days	Not Completed
5.	Participate in State-Wide One Call Notice (JULIE);	60 days	Yes
6.	Replace Hydrant No. 8 and correct the discrepancies on Schedule 3.03 (a) and (b);	1 year	Not completed
7.	Uncapped mains be capped or hydrants installed;	90 days	Not completed
8.	Install elevated storage tank with at least 40,000 gals;	24 months	Not completed
9.	Establish 8" future main program;	--	No mains installed
10	Moisture proof electrical receptacles; and	30 days	Completed

11	Establish and maintain continuing property ledger.	6 months	Not completed

### **COMPANY DESCRIPTION**

CCWC is currently providing water service to approximately 300 residential and commercial customers in Crystal Lake Manor Subdivision, located southeast of the City of Crystal Lake, in McHenry County, Illinois. CCWC is one of five utilities in McHenry County owned by T. P. Mathews. The other affiliated utilities are:

McHenry Shores Water Company;  
 Highland Shores Water Company;  
 Northern Illinois Utilities, Inc.; and,  
 Wonder Lake Water Company.

CCWC received its initial Certificate of Public Convenience and Necessity on March 13, 1955, in Docket No. 42035.

The water distribution system for CCWC consists of two wells (one well has been out of service for approximately 1 year, and the Company has no back-up in case the second well goes out of service), two hydropneumatic storage tanks for a combined capacity of 31,000 gallons, approximately 13,300 feet of four, six, and eight inch diameter mains, approximately 300 services, 296 meters, and eight (8) hydrants.

### **WATER QUALITY**

At the March 25, 1997 public meeting, the customers complained about the water quality. Their concerns were the look, smell, and low pressure of the water reaching their homes. Specifically, customers complained about noticeable variances in chlorine smell and rusty water and how the poor quality of water was affecting the useful life of their water heaters and water softeners. As explained to the customers, the rusty water problem is due to the iron content of the water. IEPA reported CCWC's well supply has an iron content of approximately 0.5mg/l. While this is less than IEPA's standard of 1.0 mg/l, an iron level of this amount is sufficient to cause aesthetic problems.

During Staff's inspection of the water facilities and flushing of the hydrants on May 2, 2001, with the exception of the water within the hydrant branch, the water appeared to become clear shortly after opening the hydrants. A test for chlorine was conducted on Hydrant No. 6, Three Oaks Rd. &

Redwood, the test showed chlorine content of .7 mg/l (free), which is above the minimum level 0.2 mg/l established by Illinois Environmental Protection Agency or a minimum level of combined residual of 0.5 mg/l.

## **WATER CAPACITY**

It was reported that one of the two wells has been out-of-service for over one year, and presently the Company has no plans to restore the well. Having one well in service appears to be in violation of 83 Ill. Adm. Code 600.230 (a), "Adequacy of Service", which states:

"Each utility shall furnish and maintain sufficient facilities to provide a continuous and adequate supply of water at reasonable pressure. Unless other acceptable provisions are made to insure continuous service, the utility should be able to meet the maximum daily demand with its largest well and/or pump out-of-service."

Further, a single well, serving the area appears to be contrary to the Illinois Environmental Protection Agencies' Ten States Standards, Section 3.2, Groundwater, which states:

### 3.2.1.1, "Source Capacity"

"The total developed groundwater source capacity shall equal or exceed the designed maximum day demand and equal or exceed the designed average day demand with the largest producing well out-of- service."

### And 3.2.1.2, "Number of Sources"

"A minimum of two sources of groundwater shall be provided."

## **VALVE AND HYDRANT**

83 Ill. Adm. Code 600.240 requires each utility to establish a valve and hydrant inspection program. Valves and hydrants must be kept in good operating condition and should be inspected at least annually. Valves and

hydrants found to be inoperable are required to be repaired or replaced. Valve covers must be maintained at grade level and not paved over. Each inspection and all maintenance must be properly noted on the valve and hydrant record card.

Based on Staff's investigation, it appears that CCWC has instituted a valve exercise program. However, it appears that CCWC has not made the necessary repairs and/or replacement of the hydrants as required by the Order in 97-0605. The only change in the hydrants inspection of 1995 to present is that Staff found one additional hydrant needed replaced.

### **METERS**

Based on Staff's discussion with Company's personnel, Staff believes that CCWC has not started a regular meter testing program or a replacement program as required by 83 Ill. Adm. Code 600.300. Company's personnel indicated that the meters are changed out as needed.

### **BANKRUPTCY**

The Order entered in Docket No. 97-0605, not only required the utility to upgrade its water facilities, but granted CCWC an increase in revenues of \$12,048, which represented a revenue change of 29.5%. On or about late October or earlier November, 1999, CCWC filed for bankruptcy.

Section 4-501 of the Act states:

- (a) If a public utility or telecommunications carrier that has fewer than 7,500 customers:
  - (1) is unable or unwilling to provide safe, adequate, or reliable service;
  - (2) no longer possesses sufficient technical, financial, or managerial resources and abilities to provide safe, adequate, or reliable service;
  - (3) has been actually or effectively abandoned by its owners or operators;
  - (4) has defaulted on a bond, note, or loan issued or guaranteed by a department, office, commission, board, authority, or other unit of State government;

- (5) has failed to comply, within a reasonable period of time, with an order of the Commission concerning the safety, adequacy, efficiency, or reasonableness of service; or
- 6) has allowed property owned or controlled by it to be used in violation of a final order of the Commission the Commission may file a petition for receivership and a verifying affidavit executed by the executive director of the Commission or a person designated by the executive director asking the circuit court for an order attaching the assets of the public utility or telecommunications carrier and placing the public utility or telecommunications carrier under the control and responsibility of a receiver;

Based on provisions 2 and 5 of Sec. 4-501, it appears that CCWC has demonstrated that they are unable to borrow the necessary funds needed to finance the operations of the Company. They have not completed the necessary requirements of the Order in Docket No. 97-0605, to provide safe, adequate and reasonable service. Therefore, Staff believes that CCWC should be placed in receivership under Sec. 4-501.

### **RECOMMENDATION**

On May 17, 2001, CCWC filed for an increase in revenues under the Simplified Rate Procedures. Staff expects that there will be considerable public outcry and resentment to any rate increase, especially since CCWC has not met the obligations of the Order in 97-0605. Because of the problems with the operations, as set forth above, Staff recommends that the proceeding in Docket 97-0605 be reopened to investigate why the CCWC has not complied with the Order in the above docket and to investigate the filing of bankruptcy. In

addition, since it appears that CCWC is unable to provide the necessary financing to ensure safety, adequate and reasonableness of service, Staff recommends that CCWC be placed into receivership.

Prepared by

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Roy A. King

Approved by

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Water Department